

## Message Text

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FM SECSTATE WASHDC  
TO AMEMBASSY BONN  
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AMEMBASSY LUXEMBOURG  
AMEMBASSY THE HAGUE  
INFO USMISSION OECD PARIS  
AMEMBASSY BELGRADE  
AMCONSUL ZAGREB  
USMISSION EC BRUSSELS

C O N F I D E N T I A L STATE 160419

E.O. 11652: GDS

TAGS: ECON, ETRD, EGEN, EEC, EALR, YO

SUBJECT:YUGOSLAV EEC PROBLEMS

REFS:1.BELGRADE 3236 (NOTAL) 2. BRUSSELS 5574(NOTAL)  
3.EC BRUSSELS 5849(NOTAL)

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1. SUMMARY - DIFFICULTIES IN FOREIGN TRADE SECTOR HAVE CAUSED YUGOSLAVIA TO IMPOSE RECENT ADDITIONAL IMPORT CURBS AND TO APPEAL TO EEC FOR MORE FORTHCOMING POLICIES WHICH WOULD TAKE INTO ACCOUNT POLITICAL ASPECTS OF SITUATION WHICH YUGOSLAVIA FACES. MISSIONS ARE REQUESTED TO DETERMINE HOST GOVERNMENT REACTION TO YUGOSLAVIA APPEAL. END SUMMARY.

2. WE ARE CONCERNED ABOUT THE APPARENT DIFFICULTIES WHICH YUGOSLAVIA IS FACING IN THE FOREIGN TRADE SECTOR. BECAUSE OF THEIR INABILITY TO REDUCE THEIR TRADE ACCOUNT DEFICIT TO MANAGEABLE SIZE, THE YUGOSLAV AUTHORITIES HAVE RECENTLY IMPOSED NEW RESTRICTIONS ON IMPORTS.

3. MANY FACTORS INCLUDING A FAILURE TO CONTROL DOMESTIC INFLATION, EXCESSIVE INVESTMENT, AND THE DAMAGING EFFECTS OF THE DRAMATIC OIL PRICE RISES ARE RESPONSIBLE FOR THE

YUGOSLAV PROBLEM. IN ADDITION TO THESE ITEMS, THE ECONOMIC SLOWDOWN IN WESTERN EUROPE AND SOME ACTIONS BY THE EEC HAVE HAD AN ESPECIALLY PAINFUL EFFECT ON YUGOSLAV TRADE. THE EEC BAN ON BEEF IMPORTS IS THE MAJOR PROBLEM THE YUGOSLAVS HAVE WITH THE EEC, BUT THERE IS ALSO A GENERAL DISENCHANTMENT WITH EEC POLICIES ON PREFERENCES TOWARD YUGOSLAVIA AS A DEVELOPING COUNTRY AND WITH BUREAUCRATIC PROCESSES WHICH THE YUGOSLAVS BELIEVE CONSTITUTE A NON-TARIFF BARRIER IN CERTAIN COUNTRIES. ITALY IS ESPECIALLY DIFFICULT IN THIS AREA ACCORDING TO YUGOSLAV OFFICIALS.

4. THERE APPEARS TO BE A GROWING SENSE OF FRUSTRATION AMONG YUGOSLAV ECONOMIC OFFICIALS OVER THEIR INABILITY TO IMPROVE THE BALANCE OF TRADE WITH THE EEC. THE \$200 MILLION AND \$360 MILLION DEFICITS INCURRED WITH ITALY AND WEST GERMANY RESPECTIVELY DURING THE FIRST FOUR MONTHS OF THIS YEAR ARE PARTICULARLY BOTHERSOME TO THE YUGOSLAVS. ALTHOUGH THEY HAVE BEEN REASONABLY SUCCESSFUL THUS FAR IN HOLDING IMPORT GROWTH TO PLANNED LEVELS, IT HAS PROVEN IMPOSSIBLE TO ATTAIN PLANNED LEVELS OF EXPORTS TO WESTERN EUROPE. IN DISCUSSION WITH OFFICERS OF EMBASSY BELGRADE, CONFIDENTIAL

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YUGOSLAV OFFICIALS HAVE IMPLIED THAT YUGOSLAVIA WILL BE FORCED TO RE-ORIENT ITS TRADE TO PLACE GREATER EMPHASIS ON EXCHANGES WITH EASTERN EUROPE AND THE SOVIET UNION AS A CONSEQUENCE OF WHAT THEY BELIEVE IS UNFAIR RESTRICTIVE ACTION ON THE PART OF EEC.

5. WE HAVE BEEN INFORMED THAT THE YUGOSLAVS HAVE INSTRUCTED THEIR AMBASSADORS IN EEC CAPITALS TO APPROACH HOST

GOVERNMENTS, STRESS THE SERIOUSNESS OF THE ECONOMIC SITUATION FACING YUGOSLAVIA, AND APPEAL FOR A MORE UNDERSTANDING, FORTHCOMING STANCE ON THE PART OF THE EEC WHICH WOULD TAKE INTO ACCOUNT POLITICAL ASPECTS OF THE SITUATION WHICH THEY FACE. WE HAVE NOT BEEN INFORMED OF ANY REACTION RE THE YUGOSLAV APPEAL THUS FAR. MISSIONS ARE REQUESTED TO FIND APPROPRIATE OCCASION TO APPROACH HOST GOVERNMENTS IN LOW KEY MANNER TO DISCUSS THE YUGOSLAV DEMARCHE AND DETERMINE HOST GOVERNMENT REACTION TO IT. IN DISCUSSION MISSIONS SHOULD REFER TO WIDESPREAD CONCERN MANIFESTED IN NATO DISCUSSIONS IN RECENT MONTHS OVER THE FUTURE STABILITY AND ORIENTATION OF YUGOSLAVIA. MISSIONS SHOULD SEEK TO FIND OUT IF HOST GOVERNMENTS MAY BE PREPARED TO TAKE ANY ACTION IN THE ECONOMIC AREA IN LIGHT OF THE POLITICAL IMPLICATIONS OF THE ECONOMIC SITUATION NOW FACING THE YUGOSLAVS. KISSINGER

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